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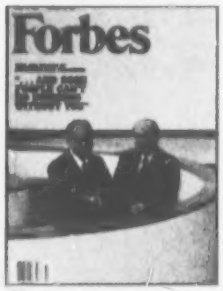

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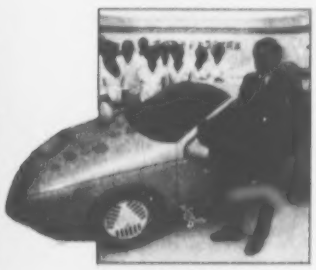

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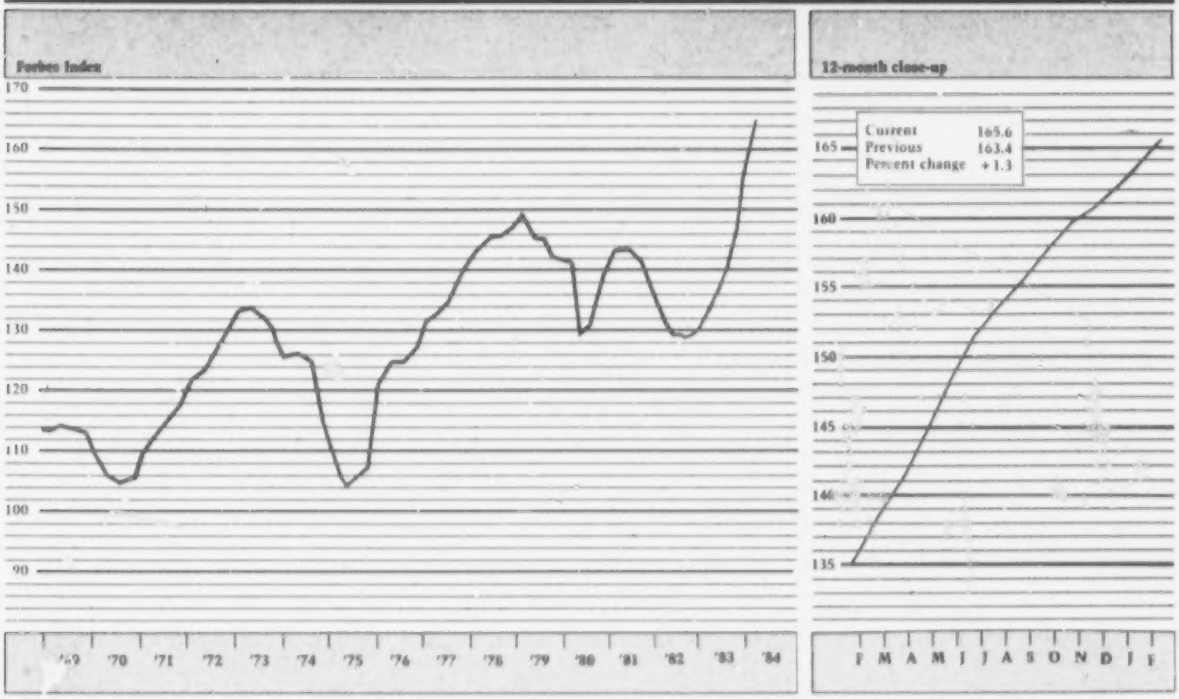
The Forbes Index



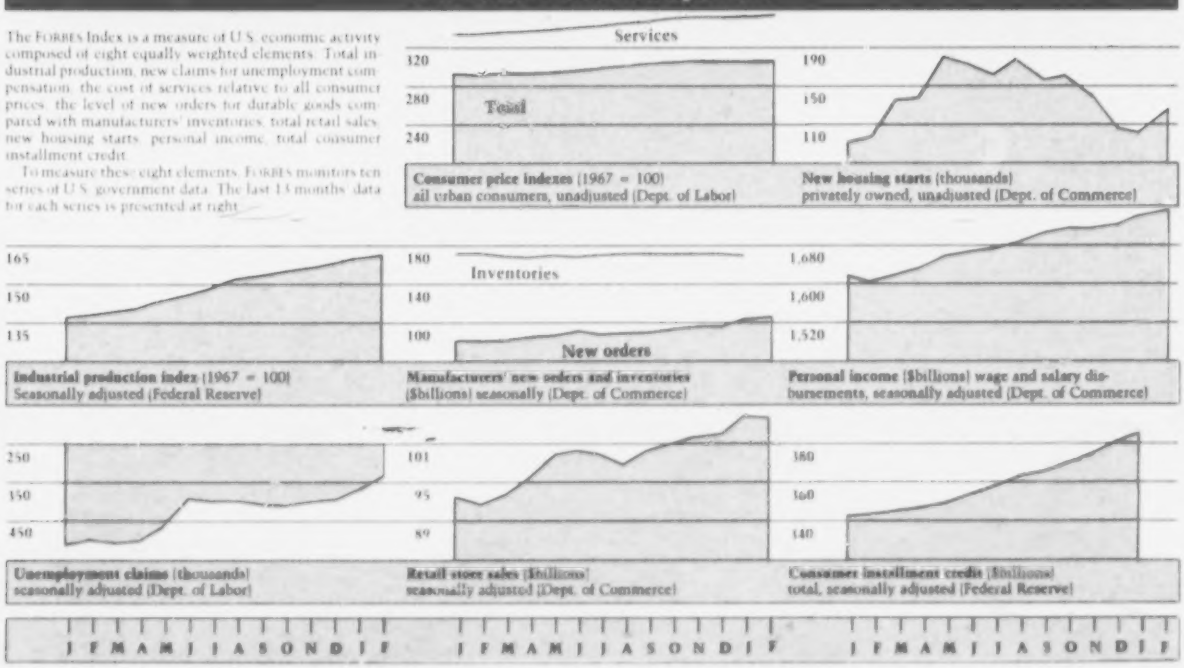
Building on success. The Forbes Index, with a 1.3% rise in the latest reporting period, continues to pile up impressive gains. Manufacturers' new orders show a 0.9% month-to-month increase. The most encouraging news, however, comes in the form of modest cost-of-living gains. The overall Consumer Price Index shows a 0.3% month-to-month rise. On an annualized basis, that works out to a gain of 3.9%. The CPI for services, meanwhile, rose almost 0.4%, for an annualized gain of 4.7%.

Inflation, it appears, is comfortably under control. But pressure for higher wages is mounting. Unions want to make up for the increases they gave back during the recession.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements. Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 13 months' data for each series is presented at right.



A patient's place is in the home. That's a guiding principle in the new, cost-conscious medicine. It spells opportunity for many new companies.

The no-overhead hospital

By Anne Bagamery

THE SAVINGS ARE STAGGERING. An emphysema patient can spend $100 or more a day to have oxygen administered by a machine in a hospital—but he can rent a home version of the machine for $250 a month. Nutritional intravenous (IV) feeding in the hospital costs upwards of $480 a month; the same care at home can be had, solutions and all, for only a quarter of that, or $120 a month.

With cost-consciousness threatening to replace the Hippocratic oath in the ethos of health care, hospital managers and doctors are trying to send patients home a lot faster. Nobody is happier about this than the manufacturers and provisioners of health care products and services for the home. Theirs is one of the fastest-growing health care segments around. Spending on home health care—for equipment, nursing services and sundry other supplies—should increase around ninefold, to more than $9 billion a year, by 1990. Spending for hospital care, even though it is many times larger, should slightly more than double, to $340 billion a year.

Thus the market has attracted more than 100 smallish companies, many of them new ones. *(See table for a sampler.)* Some of the companies, such as Healthdyne, Inc., based in Marietta, Ga., make home versions of advanced hospital machines, including respirators, insulin pumps, monitors and many others. Until the home versions were developed, patients had no alternative to the hospital.

Other companies, such as tiny Medical Homecare, Inc. of West Palm Beach, Fla., provide nursing services, the use of a "clean room" for pharmaceutical mixing and equipment rentals from stores that often resemble pharmacies.

Most of the young companies' sales and earnings are growing vigorously. But so are price/earnings multiples.

Leaders in the field have distinguished themselves from old-line health care suppliers mainly in their dedication to the advanced technology that can turn the home into a place for treatment rather than recovery alone. "We're not interested in making wheelchairs," says Parker Petit, Healthdyne's chairman and chief executive officer.

Measured in dollars of GNP, more than 10% of America's economic activity is now devoted to health care. The government's effort to control the cost is providing much of the economic incentive. Overhead alone accounts for 25% of the cost of hospitalization, and that cost is eliminated in home care. "Hospitals are increasingly becoming fancy distribution centers," says analyst Todd Richter of Morgan Stanley & Co. "In the future you will see many more services done in the home."

The market looks so promising that the little companies are going to meet increasing competition from larger ones, among them big, for-profit hospital chains—Humana, Hospital Corp. of America, National Medical Enterprises and American Medical International. These are aggressively expanding their home care operations. Each has $1 billion or more in revenues to help finance ventures in home care, and each manages large hospitals whose patients are prime customers for home care.

Established hospital suppliers, including Baxter Travenol and American Hospital Supply, also have started expanding home care divisions. Drug companies have been buying medical-equipment makers in the past few years with an eye on home care technology; witness Warner-Lambert's 1982 acquisition of IMED.

The hospital suppliers and drug companies have a big advantage: established distribution networks and long-standing tie-ins with doctors who call the shots on home care procedures. That's very important because, as Morgan Stanley's Richter points out: "Doctors are creatures of habit. It is going to take a lot to get them to break their old connections."

Does that mean the day of the small companies who helped pioneer this field is over? Not at all. With technological edges, they will probably be able to compete. Take Healthdyne's infant monitor, which helps doctors prevent crib deaths. This device, which Chairman Petit invented in 1971, is the standard of the industry and accounts for around 7% of Healthdyne's $132 million in 1983 sales.

Location can also give the newcomers an edge. Medical Homecare's market on Florida's Gold Coast is filled with smallish hospitals, old patients and young doctors who "really need help in managing home care," says Chairman Edward Wilsmann. Even where the competition is stiffer, the market for home care is growing so fast that there's still room for lots of it. ■

Infant industry

Below, a sampling of companies—some established, some fledgling—in the growing business of providing home health care.

Company	Fiscal '83 sales (000)	EPS	Shares outstanding (millions)	Recent price	52-week high–low
Foster Medical	$126,000	$0.64	12.2	14	16¾–5⅞
Healthdyne	132,700	0.38	13.8	7⅛	41¼–6½
Home Health Care of Amer	38,900	0.34	13.9	8⅛	30 –6
Medical Homecare		6*	–0.01*	11.8	1 1/16	NA
Sunrise Medical		3†	–0.48†	1.1	13¾	NA

*In business two months †In business six months NA: Not applicable

Employee-owned Katz Communications in Manhattan
Motivation is more than rah-rah. "You get your ass fired here if you don't perform," says President Richard Mendelson.

Worker ownership is supposed to bring higher productivity and a wider distribution of wealth, on credit. But is there a free lunch?

The myths of employee ownership

By William Baldwin

Louis Kelso and his employee-ownership movement are on a roll. In the past 12 months alone Weirton Steel; Raymond International, the construction and engineering firm; and Dan River, the textile firm, with 23,000 employees among them, have converted to 100% employee ownership. When the U.S. government sells Conrail, and when the charitable foundation that owns it sells giant Hughes Aircraft, workers want to be the buyers. Right now, says the Arlington, Va.-based National Center for Employee Ownership, some 500 U.S. corporations are at least 51% owned by employees.

Kelso, the 70-year-old San Francisco attorney who has been preaching the virtues of universal capitalism for three decades, is no longer actively involved in dealmaking. But his namesake firm, Kelso & Co., engineered nine employee buyouts last year and is currently working on another half-dozen proposals, including two with billion-plus price tags.

Politicians love employee stock-ownership plans, or ESOPs. "It could save hundreds of thousands of jobs," says Robert Roe, a New Jersey congressman who helped employees take over Okonite Co. Senator Russell Long, who has been inserting pro-ESOP rules in the tax code since 1975, last month got six more ESOP breaks through a tax committee, even as it labored on a tax increase to cut the deficit. The most important of them would grant lenders a 50% tax exemption on ESOP loans.

Why this subsidy? Debt is the driving force of the current wave of worker takeovers, and a good part of why ESOPs are politically appealing. The theory goes like this: Rich folks can borrow money to make money; the rest of us can't. Give the worker access to credit, says Norman Kurland, a Kelso disciple and ESOP consultant, and he can bootstrap himself into ownership of productive assets. Wealth without redistribution. Says Senator Long in his new ESOP measure: "If we continue to rely solely on traditional techniques of finance, the rich-get-richer legacy of U.S. capitalism will continue unabated."

Beyond spreading the wealth, ESOP crusaders promise an end to confrontation between labor and management, an end to featherbedding—and even an end to the welfare state. Who needs it when we all have a second income as capitalists? It would be, Kelso has said, a "Garden of Eden."

Maybe so, but after a month spent looking at an assortment of worker-owned companies, Forbes regretfully reports that some of the apples in the garden have worms. Like other outfits, ESOP companies sometimes succeed and sometimes don't. They don't always mean labor peace; strikes aren't uncommon. They don't always mean a go-get-'em attitude among workers; owning a one-thousandth share of the business isn't the same as being a proprietor. And ESOPs aren't exempt from the laws of economics, one of which says that capital can come only from saving. Not even

Three of the 1,500 current owners of Okonite comment on work attitudes, the ESOP and strikes

"About 90% of the guys really worked harder" after the buyout, says John Kortz, who started there in 1933.

"They gave it to me on a silver platter," says a grateful Jessie Bratcher, clerk, of her ESOP shares.

"It was a kick in the face," says John Nordyk, telling why workers vetoed a wage offer and struck themselves.

worker-capitalists, it turns out, can save their cake and eat it too.

Witness the power struggle under way at American Cast Iron Pipe Co., a 79-year-old foundry that fills 50 acres of factory buildings in Birmingham, Ala. President Carl Farlow, 62, who started as a messenger 45 years ago, has kept the balance sheet clean: $122 million of stockholders' equity, no funded debt. If workers have their way, it won't stay like that. They want more bonus money, even if the company has to go into hock to pay it.

Acipco was bequeathed to its workers in 1924 on the death of founder John Egan, an industrialist whose speeches decrying the rich-get-richer legacy of capitalism sound like Senator Long's. Today, the 2,900 employees don't collect dividends and they own no stock directly. Instead, the bequest yields them profit-sharing bonuses recently averaging 18% of pay, on top of the average production worker's $8.80 per hour. After bonuses and income taxes, all profits are plowed back into the casting machines, ladles and overhead cranes whose banging can be heard outside Farlow's window.

Under an arrangement that John Egan made while still alive, 12 workers elected from the shop floor sit with 5 executives on the board of trustees. After 59 years of rubber-stamp complacency, the workers mutinied last year. The 12 workers on the board reread Egan's will and decided that they, not management, should control the company. Then they announced to fellow laborers that Acipco had improperly withheld $24 million in bonus pay.

Farlow fired the worker-trustees, who then got their jobs back under court order. Now lawyers have settled in for prolonged litigation over John Egan's will. If labor wins, there may be a $24 million pot to hand out today. But what about tomorrow? Last year Acipco's sales were off a third from the 1981 peak of $317 million, and the company lost $4 million. Even in 1981 it eked out only a 10% return on capital. Credit costs more than that these days.

Acipco's workers might well ponder the plight of Rath Packing Co., a worker-owned meat processor that landed in bankruptcy court last fall. Cause: overpowering debt, at rates between 3 and 5 points over prime. True, Rath was a mess when workers took it over in 1980, not uncommon in the ESOP game, but a line of credit allowed them to postpone the severe wage cuts that were necessary.

There are success stories, too, of course. Okonite Co., a Ramsey, N.J. wire and cable manufacturer, bought itself free of a troubled Jimmy Ling conglomerate in a 1976 ESOP transaction. The $44 million price, approximately book value, was all borrowed, including $13 million in federally subsidized credit at rates as low as 1%. The 1,600 workers didn't put up a penny, took no pay cuts and kept their regular pension plan. The company has been paying off the debt via contributions to the ESOP, building the workers' equity from approximately zero to $45.3 million. It helped that

the company was well managed, that several competitors dropped out of the business and that demand for Okonite's high-performance marine and nuclear-power-plant cables kept up through 1981. In its best year, 1981, Okonite earned $7.3 million—after a $6.5 million ESOP contribution and income taxes. Last year, with sales off 20%, to $160 million, was the first in the red since conversion to employee ownership.

Worker ownership hasn't transformed labor relations at Okonite. There have been four strikes since the buyout. But workers, with an average $22,000 or so in their stock accounts, are grateful for the ESOP fringe. Says Jessie Bratcher, 33, a file clerk at Okonite's 95-year-old plant in Passaic, N.J.: "They gave it to me on a silver platter."

ESOP advocates see such successes as proof that workers in general ought to be able to leverage themselves into productive wealth. "This goes back to Kelso's theory, that capital is created with credit, that capital investment, if properly made, should pay for itself out of underlying earnings," says Joseph Schuchert, president of Kelso & Co. in New York City. "It's the immense capability of capital to regenerate itself."

But is access to credit really what makes the rich different? A laborer can put his $2,000 IRA into shares of a risky, debt-laden firm, and buy on almost the same terms as a Rockefeller. That such shares don't always go up shows that leverage curs both ways. Put aside for a moment the tax breaks *(see box, opposite)* and interest subsidies. Workers who borrow at 15% to buy a factory returning 20% on capital will, yes, make money off the leverage. If they get assets that return 10% they will be impoverished by the leverage.

What happens when subsidized credit runs out? Worker-owned Jeannette Sheet Glass Corp. in Jeannette, Pa. is the only U.S. factory left making glass by the obsolete vertical sheet process. The factory was shut in 1978, throwing 450 workers out on the street. They pitched in $2,000 apiece in equity, raised $4.1 million in state loans and federally guaranteed bank debt to rebuild the glass furnace, and had the plant running again in 1980.

They worked harder for less pay—at $7.50 an hour, wages have fallen in real terms by almost a third from the old days—and saved 340 jobs. Says President William Tofaute: "What can we do to restore American productivity? Instead of the old system of a union on one side and management on the other, let's work together."

Heartwarming. But Jeannette Sheet Glass has been in the red for most of the past four years. The furnace must be rebuilt by 1986 at the latest, at a cost of $5 million or more. Tofaute is trying to turn up some venture capital but has had no luck yet.

The most glowing ESOP achievements, it seems, are destined for workers whose talents would enable them to build capitalist wealth at a conventional firm. Look at Katz Communications Inc., which brokers air time to national advertisers on behalf of 650 or so radio and television stations. Employees, with advice from Kelso & Co., bought the firm from the Katz family in 1971 for $3 million. At its most recent appraisal the company was worth $64 million.

"I'm rich. This is a gold mine. It's electric. It's turned on," says Katz President Richard Mendelson, 50. "How would you like to work for the same money or better and own a piece of the action? We have secretaries who retire with $300,000. Instead of getting a gold watch you go out and buy the jewelry store. And it's all at risk. When we compete against John Blair [an archrival in station representation], we can say, 'It might be wise to choose the people that are in business for themselves and have everything at risk.' "

At risk it is. Katz plunged into radio station ownership in 1981, with mostly borrowed money. It borrowed another $23 million a few weeks ago to buy two station rep firms and a tenth station. So far so good; the older stations are appraised at 32% more than purchase price. Thanks to that, the appraised value of Katz stock has climbed 73% in the past two years.

Perhaps, with salaries averaging $30,000 (plus 15% put into the ESOP), these folks can afford risk. At John Blair, the publicly traded competitor, they would have a noncontributory 15% profit-sharing plan too, the difference being that Blair leaves it up to the worker whether to buy Blair stock

Owning the means of production

Worker-owned firms are, in some ways, like partnerships. A partner would ask: How much capital do I have tied up here? What can it do for me? Is it safe? Among these examples, Okonite looks fat; Graybar looks thin. But averages often obscure how the pie is cut, for the boss gets a bigger slice than the janitor.

Company/business	Sales (millions)	Employees (thousands)	Per active employee: worker surplus[1]	funded debt	equity	appraised value[2]	pension assets[3]
American Cast Iron Pipe/foundry[4]	$ 317	3.0	$12,000	$ 80	$40,000	NA	$21,000
Bureau of National Affairs/publishing	96	1.5	8,800	5,300	18,200	$25,000	9,000
Graybar Electric/wholesale	1,358	4.2	3,200	1,190	34,000	18,900	14,700
Katz Communications/advertising	66	1.1	4,700	20,000	18,000	48,000	9,800
Okonite/wire and cable[4]	218	1.9	11,600	16,300	20,000	18,000	11,500
Publix Super Markets/food	2,521	16.2[5]	6,200	770	18,100	27,000	7,200
Raymond International/construction[6]	1,420[7]	4.0[5]	7,300[8]	36,000	14,900	NA	10,500
Science Applications/defense	290	4.2	7,700	240	10,900	26,000	NA
United Parcel Service/delivery	5,213	10.2[5]	70,600	540	109,000	161,000	NA

Data for fiscal year 1982, except where noted. Averages at right are calculated as if only current employees participated, although former employees and heirs in some cases have a claim on assets and profits. [1]Pretax income before pension, profit-sharing and ESOP. [2]Established share price times number of shares outstanding. [3]Retirement savings, excluding shares in company itself. [4]1981 data. [5]Excluding hourly and part-time workers not in stock plan. [6]1983 data. [7]Estimate. [8]Pro forma, as if buyout had occurred after year-end. NA: Not applicable.

Sources: Department of Labor, SEC.

Raymond engineers a buyout

Thanks to the efforts of Senator Russell Long (D–La.), an early believer in Louis Kelso's theories, corporations may deduct contributions up to 25% of payroll to employee stock ownership plans. Combined with the usual tax advantage for debt financing—the deductibility of interest—the ESOP rule can make employee-owned companies virtually tax-exempt.

Here's how it worked at Raymond International, the Houston-based construction firm purchased last fall by its 4,000 employees. Though they paid a 15% premium over market, or $157 million, for the publicly traded shares and spent $8.5 million in fees and costs to swing the deal, employees should do well with their investment. Over its last five full years as a public company, Raymond paid about $25 million in domestic and foreign income taxes of the kind it could dodge as an ESOP firm.

Some arithmetic: Interest deductions on $180 million of bank debt incurred in the buyout are likely to end within five years, when that debt is paid off.

But there will always be ESOP contributions of 25% of payroll chewing up what would be, in other companies, taxable profits. That contribution now amounts to $33 million a year. The ESOP gets that much in stock. The cash stays at Raymond.

How does this differ from the tax treatment of conventional pension plans? When AT&T puts money in its pension fund, it gets a deduction. But when the AT&T fund buys stock in IBM, it shares in IBM profits after an income tax on IBM. When Raymond's fund owns Raymond, there is potentially no domestic income tax anywhere in the picture. (The older firms in the table on page 110 do, by contrast, pay a lot of income tax.)

ESOP participants pay a price for this tax favoritism: increased risk. As management theorist Peter Drucker has noted, two-thirds of all businesses decline over the span of a working lifetime.

A worker-owner could lose his retirement savings and his job all at once. As is often done in leveraged ESOP buyouts, Raymond ceased funding a regular pension plan in order to help finance the transaction.

Says Raymond Chairman Henry LeMieux, 57, "A guy just starting to work for us will have all his eggs in one basket. It's a risk. But the rewards are much greater."

The rewards extend beyond the blue-collar workers. LeMieux, other executives and investment bankers Kelso & Co. were cut in on a special class of common stock that cost only $6.5 million but should ultimately represent a 20% ownership of the company. And Kelso & Co. picked up a $1.6 million fee in the transaction.—W.B.

or a diversified portfolio.

There's nothing wrong in having all your savings in a stock that never goes down, if that's what happens. But is Katz growing because it has an ESOP or is the company growing because half a salesman's pay is a performance bonus? Says Mendelson: "You get your ass fired here if you don't perform." That's motivation.

Not all employee-owned companies are turned on like Katz. "It's an illusion," says John Kirby, the ad director at *Scientific American* who quit a similar position at employee-owned *U.S. News & World Report* after 15 years. "Nobody felt that he had a vital stake that was susceptible to enlargement." At *U.S. News & World Report*, the ESOP is a big success in a different way: The company has put itself up for sale, and a sale could make older employees very well off.

"The unfortunate fact is that there is no direct, automatic relationship between employee ownership and improved economic performance," says Joseph Blasi, a Harvard lecturer leading a study of worker capitalism. "A lot of fundamentalist fervor about employee ownership is misplaced."

Worker-owned companies, remember, are not immune to economic reality. Last year American Cast Iron Pipe completed its new $23 million No. 3 pipe shop. It replaced a mill that took twice as much labor to turn out half as much pipe. The improvement came, in effect, right out of the workers' pockets, since they didn't get that $24 million in bonuses. Thus, ESOP or no, the worker-capitalists at American Cast Iron Pipe were not able to save their cake and eat it, too.

Saving for the future rather than spending now, that is and has been the essence of capital formation. ESOPs don't solve the dilemma. ■

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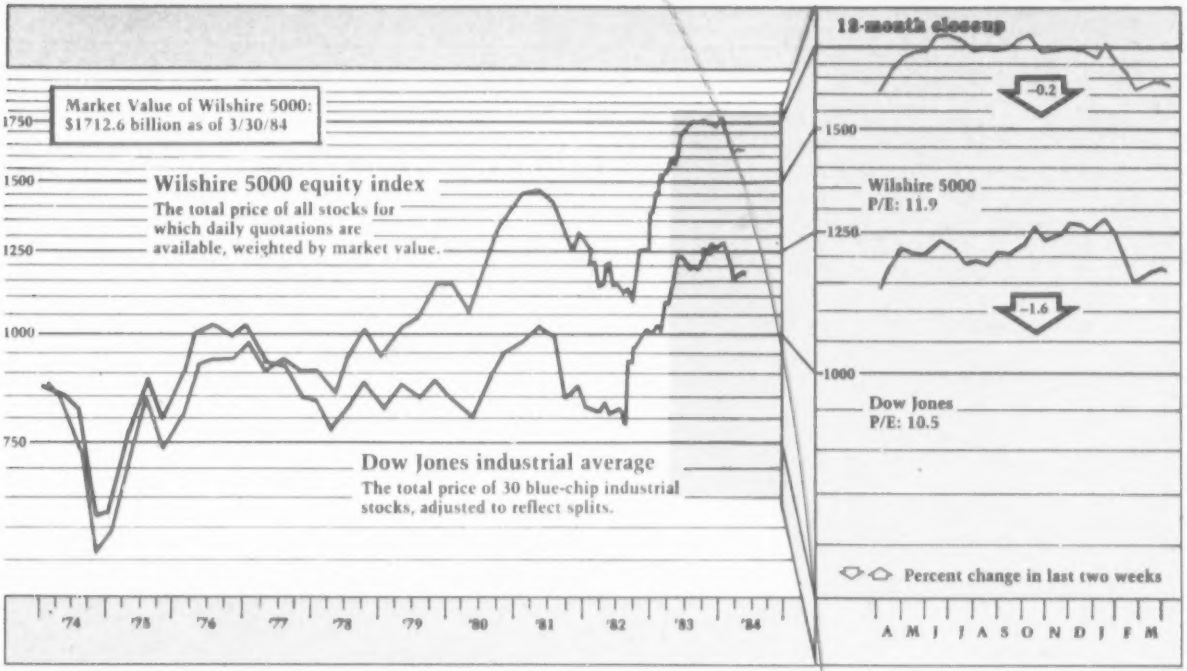
The Forbes/Wilshire 5000 Review



One-way ticket to nowhere. Neither the bulls nor the bears showed much enthusiasm during the past four weeks. Overall trading volume was also anemic, despite a few dramatic swings. In the end, most investors finished the period just about where they started. The Wilshire index of more than 5,000 stocks was off 0.3% for the month, while the Dow industrials fell 0.6%. The NYSE composite was unchanged, and the Forbes 500 (Sales) index lost 0.1%. Secondary issues didn't do as well. The Amex dropped by 0.7%, and NASDAQ stocks were down 1.9%.

The results are nearly the same for the latest two weeks—except that, for this more recent period, the Dow industrials show the largest setback, a 1.6% drop. On a 52-week basis, the Amex index continues to hold the greatest lead, an 8.6% advance. NASDAQ stocks, meanwhile, are the only group in negative territory for the one-year period, with a decline of 7.4%. The market as a whole, as measured by the Wilshire index, is ahead by 2.1% for the latest 12 months.

The investor yardsticks *(below)* also reveal an unusually lackluster period. None of the contrasting groups performed significantly better or worse than the market.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones Industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	–0.3	–0.1	–0.6	0.0	–0.7	–1.9
in last 52 weeks	2.1	3.0	3.1	4.1	8.6	–7.4

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	0.3	0.2	–0.3	0.3	–0.6	–1.0	–1.0	0.3	–0.2	–0.7	0.6	0.2
in last 52 weeks	3.9	23.6	12.2	14.9	0.5	16.8	13.5	14.7	14.2	14.2	6.9	15.9

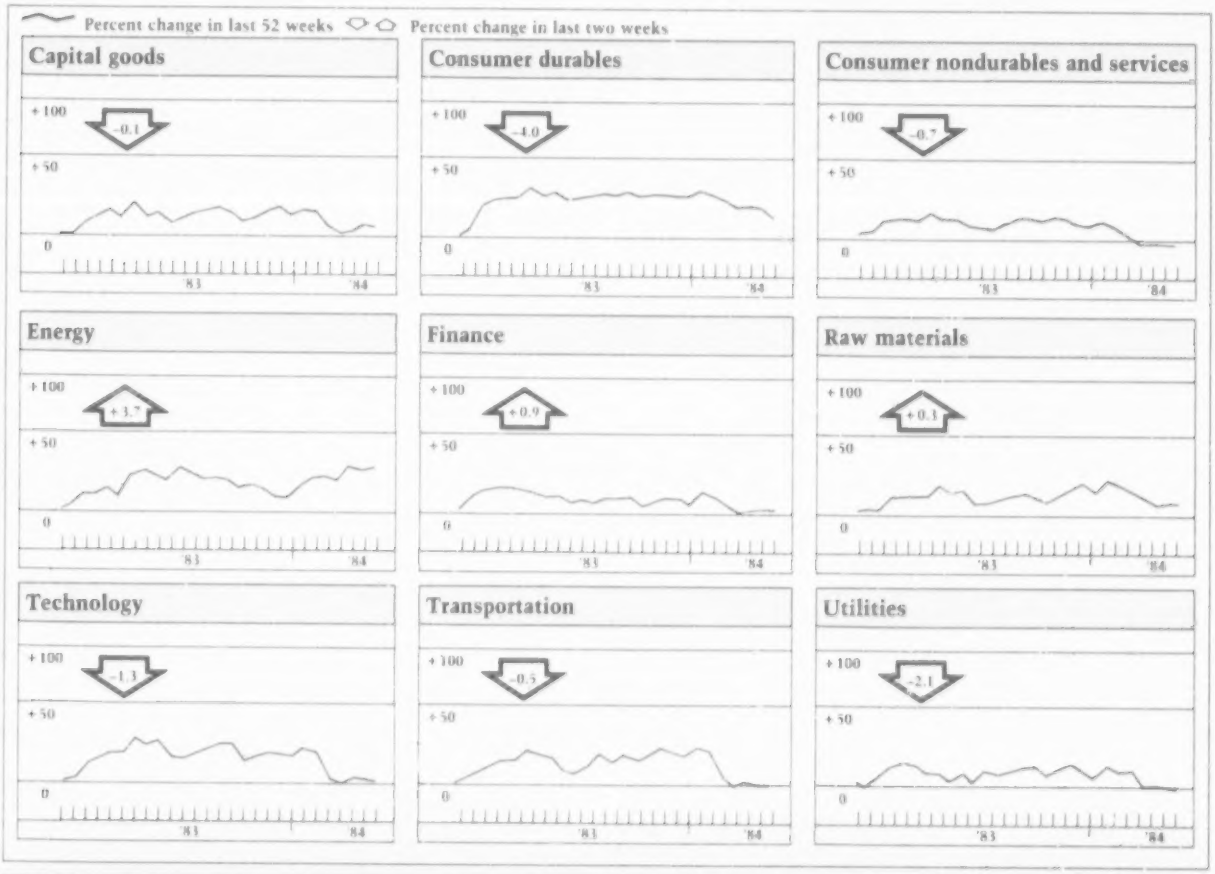
[1]Based on sales
[2]A stock's sensitivity to overall market movement. High volatility issues have wide price fluctuations; low volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 3/30/84. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Fickle consumers. The market is looking beyond favorable earnings projections for this year. Although security analysts raised their 1984 estimates for the consumer durables sector more than for any other group, these shares suffered the largest loss during the latest two- and four-week stretches. Investors shied away from auto stocks. And lower market forecasts for new aircraft orders helped Boeing lose 4½ points over the last four weeks. Hard times continued for the utilities, too. During the last month electric companies lost 3.5%.

Meanwhile, merger activity has helped energy stocks to lead the other sectors over the last ten trading days. On a 52-week basis the oils, up 25.9%, now command an even larger lead over the other industry groups.



What The Analysts Think

Signs of progress. During the last two-week period, Wall Street analysts raised their earnings estimates for consumer durables, energy and capital goods sectors. But they lowered forecasts for the remaining six groups. The sharpest drop in earnings estimates for 1984 came in the transportation sector.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.75	11.8
1984 estimates	4.24	8.0
1985 estimates	5.17	6.5

Rank based on change in estimate	Sector	Estimated 1984 EPS	% change in 1984 estimate in 2 weeks	% change in 1984 estimate in 4 weeks
1	Consumer durables	$1.17	0.90%	-0.09%
2	Energy	2.84	0.73	-0.11
3	Capital goods	2.38	0.13	-0.65
4	Utilities	3.60	-0.04	-0.03
5	Consumer nondurables	2.71	-0.54	-1.39
6	Technology	1.97	-0.60	-0.78
7	Finance	3.03	-0.67	-1.41
8	Raw materials	1.27	-0.98	-1.88
9	Transportation	3.03	-2.48	-3.39

Earnings projections are capital-weighted consensus estimates from over 1,400 security analysts. Estimates for the Forbes universe are limited to firms with four or more estimates with a mean estimate greater than $0.01. Data are compiled and updated weekly by Zacks Investment Research, an Chicago-based quantitative consulting firm.

Note: All data for periods ending 4/8/84. Prepared by Wilshire Associates, Santa Monica, Calif., Zacks Investment Research, Inc., Chicago, Ill.